

DEFENSE -- (Senate - February 13, 2001)

Mr. GRASSLEY. Mr. President, I was hoping Thursday afternoon to be on the floor with Senator *Byrd* as he spoke about some issues dealing with the Defense Department. I ask my fellow Senators and staff of the Senators who are interested in defense matters to read Senator *Byrd's* speech on page 1236 of the **CONGRESSIONAL RECORD** of February 8. I will comment, not as comprehensively as he did, about some of the problems at the Department of Defense. I will read one paragraph from his speech. It is related to a lot of work that I have been doing in the Senate for quite a few years on the lack of accountability in cost management and inventory management and just generally the condition of the books in the Defense Department, which is also the basis for my remarks today.

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I quote from Senator *Byrd's* speech: So here's the question I have. If the Department of Defense does not know what it has in terms of assets and liabilities, how on Earth can it know what it needs?

We are in the position where the new President of the United States is making a judgment of how much money he should suggest over the next few years to increase defense expenditures.

The President this week is highlighting that. I think the President needs to be complimented. He has put off for a while until the new Secretary of Defense can do a study of Defense Department needs and missions before making the specific judgment of how much money should be spent.

This is somewhat different than what President Reagan did in 1981 when the judgment was that just spending more money on defense automatically brings you more and a better defense. Obviously, at that time more money needed to be spent, but exactly how much needed to be spent was not so clear. A lot more money was appropriated, creating a situation where an Assistant Secretary of Defense at that particular time said there was so much money allocated that we piled the moneybags on the steps of the Pentagon and said to them: Defense contractors, come and get it.

I think we look back and know some of that money probably was not wisely spent, although we do give credit to President Reagan for spending more, and in a sense challenging the Soviets in a way so they had to call a halt to the cold war. That saved the taxpayers a lot of money in the long term. Now we have a President who has time to think about what should be done and is giving it the proper consideration. So I want to start out by complimenting President Bush for his approach to ramping up defense expenditures at a time in our history when there is a general consensus among both political parties that more ought to be spent. Since we are going to spend more, it ought to be spent very wisely. President Bush deserves the thanks of the American taxpayers for being very careful. He has stated there is a need for an immediate increase in pay and housing for military people to enhance their morale and keep dedicated people who are already trained, give them a financial incentive for staying in instead of getting out and going into the private sector--he is moving ahead on those few things. But on the larger question of increasing expenditures, particularly for enhanced weaponry and new weapons, he is waiting until there is a study completed. I thank him for doing that.

Regardless, as Senator *Byrd* said, we ought to have a set of books, an accounting system, at the Defense Department that is not only such that we know what the situation is, how much we have

in inventory, how much is actually being paid for a weapons system, but when we have a bill to pay, we ought to know what we got for that bill. What goods and services were received? The point is, we do not now have that information. That was the point of Senator *Byrd's* question. It is the point of my question today. But my questioning is on ongoing points I have been raising with the Defense Department now for a period of probably 4 or 5 years or longer.

I am truly honored to have an opportunity to speak on the very same subject that Senator *Byrd* spoke on last Thursday. I am hoping the Senator from West Virginia and this Senator from Iowa can team up this year in a search for a solution. As many of my colleagues know, I have been wrestling with this problem for a number of years, and, candidly, without a whole lot of success in getting the Defense Department to change their bad accounting, and not having a basis, then, on which to ask for further increases into the future. I have come here to the floor of the Senate and spoken about this many times. I have raised these same concerns during hearings before the Budget Committee.

As chairman of the Senate Judiciary Subcommittee on Administrative Oversight, I have investigated this problem and held hearings on it. I have offered legislation on it and some of that legislation has been incorporated, thanks to Senator *Byrd* and Senator *Stevens*, the ranking people on the Appropriations Committee, in various Department of Defense appropriations bills. The General Accounting Office and the Pentagon's inspector general have issued report after report after report exposing these same problems. In fact, their investigative work has been the basis for some of my remarks in the past.

So here we have, again, last week, this issue being raised by the Senator from West Virginia. I am glad to have somebody of Senator *Byrd's* stature asking pertinent questions because then people pay attention. People listen up. That also applies to my listening and reading what the Senator from West Virginia had to say last week.

Senator *Byrd* started his inquiry maybe months and years ago, for all I know, but it came to my attention when he was participating in a hearing before the Senate Armed Services Committee on January 11, the hearing on the nomination of Mr. Rumsfeld for Secretary of Defense. My gut sense tells me Senator *Byrd's* question sent shock waves through the Pentagon. When I read about it in the newspaper the next day, I asked my staff to get the transcript and fax it to me because I was home in my State of Iowa. I studied the exchange between Senator *Byrd* and Secretary designate Rumsfeld very carefully. What I heard was music to my ears. In a nutshell, Senator *Byrd* was talking about the Pentagon's continuing inability to earn a clean opinion under the Chief Financial Officer's Act audit. That act was passed in 1990. So we have been down this road, now, for 10 years. I hope in most departments of Government we have accomplished something. It does not seem as if we have in the case of the Pentagon.

Under the Chief Financial Officer's Act, the Pentagon must prepare financial statements each year. Those are then subjected to an independent audit by the General Accounting Office and the Inspector General. Senator *Byrd*, on January 11, questioned Mr. Rumsfeld about the results of the latest Chief Financial Officer's audit by the inspector general. Senator *Byrd* stated at that time, and I quote from the transcripts: DOD has yet to receive a clean audit opinion in its financial statements. Senator *Byrd* went on to quote from a recent article in the Los Angeles

Times about the Pentagon accounting mess. Again, I quote from the transcript of a statement of Senator *Byrd*: The Pentagon's books are in such utter disarray that no one knows what America's military actually owns or spends.

As Senator *Byrd* knows, this quote contains a very powerful message. This is the message that I glean from that quote: The Pentagon does not know how much it spends. It does not know if it gets what it orders in goods and services. And the Pentagon, additionally, does not have a handle on its inventory. If the Pentagon does not know what it owns and spends, then how does the Pentagon know if it needs more money? We, as Senators, presume already that the Pentagon needs more money--because there is kind of a bipartisan agreement to that, and President Bush won an election with that as one of his key points. We need to know more, and a sound accounting system is the basis for that judgment.

Of course, that is the logic that was the foundation of Senator *Byrd*'s next question to Mr. Rumsfeld. I will quote again from January 11: I seriously question an increase in the Pentagon's budget in the face of the department's recent [inspector general] report. How can we seriously consider a \$50 billion increase in the Defense Department budget when the [Department of Defense's] own auditors--when DOD's own auditors--say the department cannot account for \$2.3 trillion in transactions in 1 year alone.

I agree with Senator *Byrd*'s logic 100 percent. Ramping up the Pentagon budget when the books are a mess is highly questionable at best. To some it might seem crazy. And, of course, as I said about President Bush, and I compliment him for it, he appears to be reacting cautiously to pressure to pump up the defense budget, at least to do it now. He will do it in his own deliberate way, and hopefully with the adequate information to make a wise decision of how much the increase should be.

I am encouraged by front-page stories in the New York Times on January 31, 2001, and again on February 5. These reports clearly indicate there would be no decision on increases: until the Pentagon has completed a top-to-bottom review of its long-term needs.

I think this was reiterated by the President yesterday in his message to our men and women in uniform when he was down at Fort Stewart. So this sounds good to me. I only hope the review the President is asking for includes a searching examination on the need to clean up the accounting books.

This brings me to the bottom line, Senator *Byrd*'s very last question on January 11: What do you plan to do about this, Mr. Rumsfeld? This is where the rubber meets the road. What do we do? What does the Secretary of Defense do, because he is in the driver's seat on this, to clean up the books? As I said a moment ago, I have been working on this problem for a long time and I am not happy with the Pentagon's response today, even though I am happy with the response of people such as Senator *Stevens* and Senator *Byrd* to help us get some language in appropriations bills to bring some changes in this behavior. I think the Pentagon has a negative attitude about fixing the problem. The bureaucrats in the Pentagon say that this is the way it has always been. And it ain't going to change--at least not in our lifetime. It's just too hard to do.

The former CFO at the Pentagon, Mr. John Hamre, compared it to trying to change a tire on a car that was going 100 miles per hour. Well, I just can't buy that. That is not acceptable to me. This reminds me of the football team that loses one game after another. If I were the coach, I might say: Hey, it's time to go back to basics--like blocking and tackling drills every day. I think the Pentagon needs to do the same thing--go back to basics--like accounting 101. I will be the first to admit that I lack a full and complete understanding of the true magnitude of this problem.

Bookkeeping is a complicated and arcane field. And it's very boring. So it does not command much attention around here. But over the years, I have learned one important lesson about government bookkeeping. Bookkeeping is the key to controlling the money, and making sure that the taxpayers money is well spent. Bookkeeping is the key to CFO compliance. If the books of account are accurate and complete, it's easy to follow the money trail. That makes it hard to steal the money.

By contrast, if bookkeeping is sloppy--as at the Pentagon today, then there is no money trail. That means financial accounts are vulnerable to theft and abuse. And that is exactly where the IG and GAO say that the Pentagon is today. Every one of their reports shows that bureaucrats at the Pentagon fail to perform routine bookkeeping functions day in and day out.

The IG and GAO reports show that financial transactions are not recorded in the Pentagon's books of account as they occur--promptly and accurately. They show that some payments are deliberately posted to the wrong accounts. Sometimes transactions are not recorded in the books for months or even years and sometimes never. They show that the Pentagon regularly makes underpayments, overpayments, duplicate payments, erroneous payments, and even fraudulent payments. And most of the time, there is no follow up effort to correct the mistakes.

These reports show that DOD has no effective capability for tracking the quantity, value, and locations of assets and inventory. Double-entry bookkeeping is needed for that, but double-entry bookkeeping is a non-starter at the Pentagon. It doesn't exist. In sum, Mr. President, these reports show that DOD has lost control of the money at the transaction level.

With no control at the transaction level, it is physically impossible to roll up all the numbers into a top-line financial statement that can stand up to scrutiny and, most importantly, audit. Sloppy accounting generates billions of dollars in unreconciled mismatches between accounting, inventory, and disbursing records. Bureaucrats at the Pentagon regularly try to close the gap with ``plug" figures, but the IG is not fooled by that trick. Billions and billions of dollars of unreconciled mismatches make it impossible to audit the books.

As a result, each year the Pentagon gets a failing grade on its annual financial statements required by law. Each year, the IG issues a ``disclaimer of opinion" because the books don't balance.

This brings me back to where I started.

Senator *Byrd* shined a bright beam of light on this very problem at Mr. Rumsfeld's hearing. I thank him from the bottom of my heart. By asking a few simple questions, the distinguished Senator from West Virginia has stirred up a hornets nest. I am hoping that his interest will encourage the new leadership in the Pentagon to move in the right direction. I hope the new leadership will help the bureaucrats find some old time religion.

What I am hoping is that we can find a way to convert this inertia into a long-term solution. But Mr. Rumsfeld has to find the will to do it. If the will is there, the way will be found. When I talk about going back to basic accounting 101 stuff, I am not suggesting that DOD break out old-fashioned ledger books.

Today, bookkeeping and inventory control is done electronically, using highly integrated computer systems. Large companies like Wal-Mart Stores, Inc. are famous for doing it with ease. Wal-Mart has a transaction-driven system. It is updated instantaneously when a transaction occurs at a cash register anywhere in the system. Why can't the Pentagon do it?

I made an all-out effort to fix it two years ago. With the help and support of the Budget and Armed Services Committees, I crafted what I considered to be a legislative remedy. Those provisions are embodied in Sections 933 and 1007 of the FY2000 defense authorization act--Public Law 106-65. I thought my legislative remedy would move the Department of Defense towards a clean audit, and that they would get an OK under the Chief Financial Officers Act from the inspector general and the General Accounting Office within 2 years. That was the point of my amendment.

Well, guess what. We are two years down the road, and the clean opinion is nowhere in sight. And there is nothing coming down the pike or on the distant horizon that tells me that we will get there any time soon. DOD simply does not have the tools in place to get the job done. So I am hoping that the Senator from Iowa and the Senator from West Virginia can put their heads together and find a solution. I am hoping we can work together to craft a more successful approach.

For starters, I have a recommendation to make to my friend from West Virginia. In the near future, I would expect Secretary Rumsfeld to nominate a person to be his Under Secretary for financial management--the Comptroller and Chief Financial Officer. This is his CFO. This is the person responsible for cleaning up the books and bringing the Pentagon into compliance with the CFO Act. I would like for us to sit down with this individual immediately after nomination--and long before confirmation. I would like us to ask the same question that Senator *Byrd* asked Mr. Rumsfeld: Mr. Secretary, what do you plan to do about this?

First, I would expect this person to make a firm commitment to financial reform and to Chief Financial Officer's Act compliance. Second, I would not expect a final solution on the spot. However, prior to confirmation, I would expect this individual to provide us with a general framework and a timetable for reform. When can we expect to see a clean audit opinion? I will want the nominee to provide a satisfactory answer to that question.

I hope the Senator from West Virginia will think that is a good thing for us to ask the next CFO of DOD. As the new chairman of the Senate Finance Committee, I am deeply troubled by the Pentagon's negative--I don't care--attitude towards bookkeeping. I see good bookkeeping as a constitutional responsibility of every department of Government. Taking cash out of the pockets of hard-working Americans and appropriating to an agency that fails to control it is just not acceptable. That must change.

Now, in my new position on the Finance Committee, the Senator from Iowa is responsible for legislation that authorizes the Government to reach deep into every citizen's pocket to get this money. I want to be certain that money is spent wisely, No. 1. And No. 2, I want to be sure that there is an audit trail on that money for all of us to see. That audit trail, that accounting system, that information in that accounting system on past expenditures is a very necessary basis for President Bush and Mr. Rumsfeld to make a decision of how much more the Defense Department budget should be ramped up.

I thank the Senator from West Virginia for his willingness to work on this issue. Trying to solve the bookkeeping problem at the Pentagon, earning a clean audit opinion, would restore accountability to bookkeeping at the Pentagon. This is a worthy cause. I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. THOMAS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.